

Linking Strategic Planning and Budgeting In Scottsdale, Arizona

Six action elements guiding the city's multiyear budget process provide the tools for integrating its community-based planning with its long-range financial plans to create an economically balanced, sustainable community.

By Craig Clifford, CPA

The City of Scottsdale has a long tradition of innovation and managing its destiny using citizen-driven plans that span years and even decades. The city manager has promoted the organizational philosophy of linking community-based planning with sound, long-range financial planning to provide for public services within an economically balanced, sustainable environment.

In 1994, Scottsdale formed a cross departmental team to challenge the city's annual budget process with the objective of streamlining and transforming it into a more effective long-range financial planning and decision-making tool which would integrate more effectively with the city's other strategic planning elements: the general plan, comprehensive financial policies, and the "City Critical" objectives and strategies. Specific goals identified by the team were to

- eliminate redundant and non value added work,
- promote stakeholder participation,
- decentralize budget decision-making,
- strengthen strategic decision-making,
- provide expenditure flexibility
- emphasize long-range planning, and
- save staff and council time

The team began with benchmarking the budget process to other municipalities. This preliminary research indicated that a multi-year, rather than a one-year, budget approach would be a better tool to support, strategic long-range planning efforts. Brainstorming ideas for improving the process, the team probed the current budget process to identify aspects that they felt worked or did not work and the result was development of a "should-be" process map and a list of tactical changes to be implemented in conjunction with moving to a multiyear budget process.

The focus of the team was on the goals, as it visualized what the process outcomes should be. A significant help in this effort was the Government Finance Officers Association (GFOA) Distinguished Budget review criteria which emphasize four major categories for an outstanding budget: policy orientation, operations focus, financial planning, and effective communication.¹ The resulting strategic budget process in Scottsdale is consistent with the recently released work of the National Advisory Council on State and Local Budgeting (NACSLB)², which identifies key characteristics of a sound budget process: a long-term perspective; linkages to broad organizational goals; a

focus on results and outcomes; effective communication with stakeholders; and incentives to government management and employees.

To achieve the objective of transforming the budget process into a more strategic planning tool, two overriding principles emerged from team brainstorming and discussion:

- thinking long-term to ensure a balanced approach and fiscal stability, and
- providing linkage and congruency between needs assessment, fiscal capacity and results and outcomes.

These two principal assumptions were considered essential to successfully changing departmental staff's view of the budget process: rather than a short-term, work-intensive, numbers-crunching exercise, it should be viewed as the big picture- strategically planning for the future.

The strategic budget process map identified six sequential (linked) action elements spanning an entire year that are important to its success:

- listen to stakeholder input: citizens, boards, commissions, council, and management
- review/develop policy and critical objectives by city council and management
- develop strategies to achieve critical objectives by management and staff
- link financial resources to strategies which help achieve policy and critical objectives-preparation of a balanced multiyear budget proposal
- communicate plan and expected results and outcomes to stakeholders
- measure accountability to objectives via result and outcome performance measurement.

Diagrammed in Exhibit 1, these elements became the building blocks for

THE NATIONAL ADVISORY COUNCIL ON STATE AND LOCAL BUDGETING FRAMEWORK FOR IMPROVED STATE AND LOCAL GOVERNMENT BUDGETING (EXCERPTS)

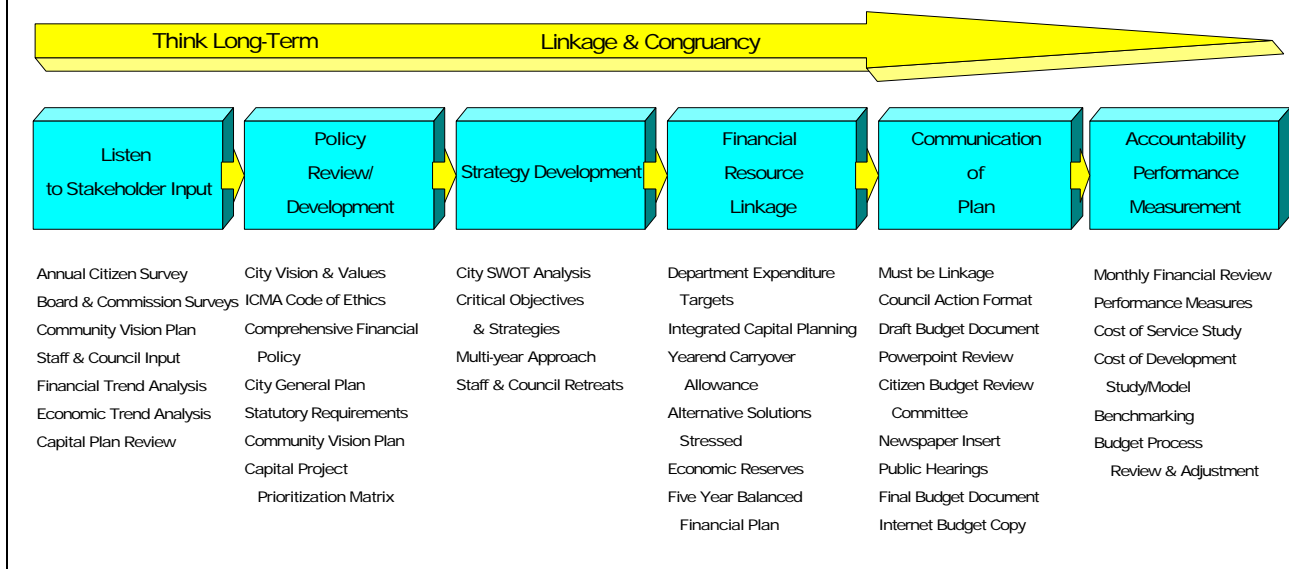
Definition - The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

Mission - The mission of the budget is to help decision-makers make informed choice about the provision of services and capital assets and to promote stakeholder participation in the process.

Principles of the Budget Process

1. Establish broad goals to guide government decision making.
2. Develop approaches to achieve goals.
3. Develop a budget consistent with approaches to achieve goals.
4. Evaluate performance and make adjustments.

Exhibit 1 - City of Scottsdale Strategic Budget Process



implementing Scottsdale's strategic budget process. How they have been applied in practice is detailed in the following sections.

Input From All Stakeholders

Listening to input from stakeholders, one of the critical elements identified by the NACSLB, is an important component of the budget process in assessing citizen satisfaction with services and establishing priorities for addressing community needs in the coming budget year(s). This communication is also important for civil dialog and cooperative development of the community.

Stakeholders in Scottsdale are defined as all parties that have an interest in the city's sustainable future, i.e., individual citizens/families, citizen boards and commissions, city council, developers, business owners, credit rating agencies, and professional staff. The city employs a variety of sources to gain feedback regarding the direction in which stakeholders would like the city to move. Many documents are provided that help plan city's future: a community visioning document, the Annual Citizen Survey, board and commission surveys, citizen budget committee recommendations, council and staff input. These formal

written inputs supplement regular public meetings, telephone, e-mail, and other forms of citizen dialog.

Citizen/Community Input. Scottsdale employs a statistically valid citizen survey every year to help determine satisfaction with city services and programs and to identify the issues that need the most attention. The survey begins with demographic questions so that detailed analysis of satisfaction with programs can be made in a demographic or geographic context; e.g., one geographic area of the city responded with less satisfaction with parks services or female respondents were more concerned than men with crime and public safety. This input is reviewed by staff and council with the expectation that departments will conduct focus groups or more detailed survey follow-ups as necessary to help plan future direction. The survey has been conducted for a number of years in much the same format to provide trend information. Local statisticians under the direction of professors of mass communication and media research at Arizona State University have conducted the survey in most years at a nominal cost.

Important characteristic of Scottsdale's survey are brevity, so it is not too burdensome for respondents to participate; trend identification to

determine if service is getting better, staying the same or getting worse; pinpointing major concerns/issues to learn customer priorities; ranking of key service areas; and statistical validity for reliable data and year-to-year comparisons.

Professional Staff Input. One of Scottsdale staff's core values is to "take ownership"-an expectation that city staff take ownership of citizen input and needs of the community and translate them into feasible workplans and budgetary recommendations. Accordingly, staff must think and plan strategically, determining the long-range impacts and related consequences of decisions, and aim to ensure community sustainability through the ability to fund decision over-time without jeopardizing the fiscal health of the community.

The city's culture also emphasizes cooperative efforts by departments to help achieve mutual objectives; for example, integrating criminal justice issues through police/courts/prosecutor input and cooperation or input and cooperation among parks, recreation, and schools regarding youth services.

Financial Capacity Input. Scottsdale begins the financial capacity input by conducting an economic and financial trend analysis early in the strategic budget process. This involves examining more than 30 separate economic base along with other external factors. The analysis draws upon the expertise of governmental finance researchers, credit rating agencies, and the city's financial services staff. The trend analysis is performed annually after fiscal year-end using the latest information from the city's comprehensive annual financial report. The indicators are measured over time to monitor changes in financial condition. The analysis does not provide specific answers as to why an economic or financial problem is occurring but does provide flags for identifying problems, clues to their causes, and time to take anticipatory action. Findings from the trend analysis set the framework for making key resource and expenditure assumptions and development of budget target.

Another input relates to capital project plans. Early input from these plans is important since many operational costs and program workplans are premised upon completion of capital facilities. A cross-departmental Capital Improvement Plan Coordination Team is used for reviewing all capital project requests for reviewing all capital project requests for timing and cost considerations, compiling life-cycle costs, and preparing preliminary capital improvement plan recommendations to the strategic budget process. The team uses a project prioritization matrix adapted from the International City/County Management Association (ICMA) to assist in identifying the most critical projects which should be funded in the financial plan. As capital improvement projects are scheduled for completion, the operating costs of these facilities is forecast and an allowance is provided in departmental expenditure targets.

Financial input during the early phase of strategic budgeting relies upon conservatively estimated expenditures and available resource estimates. The resulting city fiscal capacity statement-relating to fund balances, debt capacity, etc.-allows for review against financial policy and development of preliminary expenditure targets for future budget

planning. This estimate of fiscal capacity helps council and staff frame a strategic plan which sustains the city's fiscal integrity-and enables it to live within its means.

Policies and Critical Objectives

The review and development of policies and critical objectives are the foundation of Scottsdale's strategic planning and the basis for measuring performance and evaluating proposals for future programs. They demonstrate to stakeholders a consistent approach towards management. The GFOA budget awards criteria require a policy orientation "to emphasize that the budget is a policy document and much more than a collection of numbers....," and the first guiding principle outlined by the NACSLB is to "Establish broad goals to guide government decision making."

Scottsdale elected officials and staff review and continuously develop a variety of policy and goal sources that contribute to the strategic framework used by the city:

- **City Vision and Values Statement.**

This identifies how the city wants to be perceived, helps determine the corporate culture, sets forth its philosophy for service delivery, and serves as a continuous focus for organizational behavior.

- **ICMA Code of Ethics.**

Complimentary to Scottsdale's value-driven culture, the code states principles dedicated to quality local government and professional management of governmental affairs..

- **Comprehensive Financial Policy.**

Representing a composite of prior city policies enhanced by fiscal policies gleaned from other jurisdictions, this policy helps make clear to elected officials and the public the financial framework that the city believes to be prudent and strives to achieve. It comprises guidelines for operations, capital management, debt management, reserves, and financial reporting and is re-adopted by city council each budget year.

- **Legal Requirements.** State budget statutes, debt limitations, environmental standards, risk management laws, etc., constitute other impacts upon the way in which the city conducts business.

- **Community Visioning/CityShape 2020.** This document, which is widely distributed to staff and management, identifies the quality elements necessary for a sustainable community, as seen by a cross section of community stakeholders.
- **City Critical Objectives.** These broad goals are developed by senior management and confirmed with the city council as part of the strategic budget process. They outline overall priorities and resource allocation based upon stakeholder input, and guide development of strategies for achieving the objectives. Each critical objective is defined, the overall key strategies for achieving the objectives are listed, then detailed key strategies for each relevant department are set forth. Exhibit 2 illustrates excerpts from Critical Objective #6 from the 97/99 Organizational Strategic Plan.

Development of Strategies

NACSLB's second principle is "Develop approaches to achieve goals." Strategies provide the operational guidance to staff to help them achieve identified objectives and goals and the means for implementing them. In Scottsdale, the success of this action element relies heavily on the two overriding principal budgeting assumptions: long-term thinking, and linkages/congruency between the elements. Policy framework is kept in mind when staff plan strategies to accomplish critical objectives-strategies must conform to land-use plans, financial policies, and/or legal limitations. To assure a balanced financial plan, available resource target allowances are established for five future years in order for departmental staff to understand and to make strategy decisions based upon the dollar expected.

Development of strategies includes preparing outcome/performance measurements to help determine the success at achieving programs service objectives as well as critical objectives. Operational strategies are designed to achieve measurable progress towards these objectives and in order for the city services to be judged as meeting the customer quality service needs.

Scottsdale conducts a brainstorming exercise to assist staff in expanding its

Exhibit 2

CRITICAL OBJECTIVE #6: CONTINUE TO STRENGTHEN AND ENHANCE OUR ECONOMIC AND FISCAL VITALITY (EXCERPTS)

Definition

The overall target of this goal is to ensure that Scottsdale continues to enjoy its economic advantage by maintaining a comprehensive overall economic development program which helps the community's economic base grow at a faster rate than population growth.

KEY STRATEGIES

1. Conduct several comparative fiscal impact analyses of alternative land use scenarios in order to determine the land use mix which best enables the city to meet its long-term economic goals by December 1997.
2. Seek analytical measures to determine whether or not economic growth is achieving stated goals by July 1997.
3. Develop an Economic Element as recommended by CityShape 2020 and incorporate it into the General Plan by August 1997.
4. Develop a long-term strategy to help protect uncertain revenue sources (notably intergovernmental revenues) and/or look at alternative revenue sources to replace these if they are no longer available by March 1998.
5. Provide a balance between new development/job attraction efforts and redevelopment/retention and expansion efforts in order to ensure that the older areas of the community and the existing economic base do not suffer from growth in newer areas by October 1998.
6. Look for ways to reduce the need for city financial incentives...either by reducing competition (e.g., the proposed Shared Revenue Zone), or by providing other non-financial services (e.g. faster processing of building permits) by October 1997.
7. Continue to make sure that growth pays for itself, but also ensure that the full long-term benefit of new commercial activities is taken into account in all cost analyses by June 1998.

KEY STRATEGIES BY DEPARTMENT

[Shown below are the key strategies identified for three departments. Also listed in the document are key strategies for the departments of community development, community services, economic development, community planning, municipal services, and transportation.]

Financial Services:

8. Reinforce our solid standing with rating agencies to maintain our excellent general obligation and municipal property corporation bond ratings and to achieve upgrades to our water and sewer revenue bond ratings.
9. Seek optimum financing structure to mitigate debt service costs, while retaining our high credit ratings.
10. Provide governmental financial training/updates to departmental customers and City Council to increase their financial acumen and confidence with financial responsibilities.
11. Coordinate departmental capital planning needs and match to financial resources for the next 10+ years.
12. Facilitate enterprise recordation and valuation of personal and real property.
13. Reporting of financial results in conformance with Governmental Accounting Standard Board.
14. Maximize revenue collection and compliance with city ordinances.
15. Work with Arizona Division of Occupational Safety and Health (ADOSH) to obtain for the city's Corporation Yard facility full accreditation for ADOSH's Voluntary Protection Program (VPP) merit/star status.

Police:

16. Continue to pursue opportunities to provide contract services to other police agencies.
17. Continue to identify opportunities to meet with business owners to develop partnerships and strategies that insure for the security of their businesses and customers.
18. Continue to look to the business community and private donors for appropriate endowments for police needs.

Water Resources:

1. Deliver safe, reliable water and wastewater services, appropriately priced to our customers.
2. Secure a long-term supply of water.
3. Develop and implement a long-range financial plan.

multiyear approach and strategic thinking regarding strengths, weaknesses, opportunities, and threats (SWOT) of the organization/community. Organizational SWOT analysis identifies strengths that can be leveraged, weaknesses to be improved upon, current and future opportunities, and critical needs that should be addressed. It is helpful in

determining future service needs and changes necessary to meet those needs. The multiyear approach highlights the financial implications of earlier decisions, thereby allowing management to identify operating costs that will be necessary in future years as a result of current capital expenditures and to plan with financial sustainability in mind.

Scottsdale's budgets are reviewed and approved based, in part, upon how well department strategies demonstrate commitment to achieving City Critical Objectives. The city manager reinforces this strategic linkage by visiting with each work unit (cost center) during the year and discussing performance, results and outcomes, and the contributions

made towards achieving city objectives. The city's budget process, in emphasizing congruency between City Critical Objectives and departmental work plans/strategies, is a practical example of the recommendation of the NACSLB that strategies to develop programs and services should be consistent with policies and plans.

Linking Resources to Strategies

The multiyear budget process in Scottsdale has changed management and staff perception of budgeting from a short-term "number crunching" episode to a planning activity to match financial resources to achieve program goals.

Departmental Expenditure Targets.

Scottsdale's strategic process team recommended the use of departmental expenditure targets to help develop work plans that were in balance financially and to encourage decision making by staff who have direct contact with citizens. Prior to using departmental expenditure targets, budget requests were voluminous and well in excess of the city's capacity to fund.

Budget targets set an upward expenditure limit to all departmental budget planning. The targets are premised upon historical and econometric revenue forecasts minus required and/or policy-driven expenditures, such as reserve contributions, salary/benefit changes, internal service costs, and contributions towards capital improvements. The net remaining is available for departmental expenditures adjusted for new operational costs associated with capital projects, inflation, and growth. These adjustments are typically less than forecasted growth and inflation rates, in order to encourage management to develop alternatives to the need for additional financial resources. Staff is required to submit budget proposals that do not exceed budget targets.

Alternative Solutions. Another requirement of all budget submittals is identification of alternatives to help maximize budget target allowances. Alternatives include: base budget/program trade-offs, identifying new or increased revenues, pooling targets, use of volunteers, process reengineering efforts, more efficient work methods, and use of technology.

Integrated Capital Planning. Related long-term debt financing and operational costs of new facilities are incorporated into future plans to ensure compliance with financial policies and adequacy of future resources.

Year-end Carryover. In order to provide departmental expenditure flexibility, carryover budget savings from year to year are allowed for funding programs and/or one-time capital expenditures. Carryovers are closely monitored to avoid unnecessary build-up of unallocated funds and to ensure funds are expended to accomplish stated goals and objectives. The carryover approach has changed departmental staff attitudes from "spend it or lose it" at fiscal yearend to a more fiscally sound multiyear program planning and funding approach.

Five-year Balanced Financial Plan.

Scottsdale's five-year plan, an extension of the two-year budget, is premised upon five-year economic/revenue forecasts and expenditure budget target allowances. All staff are required to participate in a five-year strategic financial planning exercise with more emphasis, tactical planning, and reliability placed on the first two years. Departmental staff also are asked to evaluate program or position requests for possible trade-offs, reduction or elimination, changing service levels, or changing the allocation of resources. Supplemental budget decision packages are prepared by departments to address growth, service level changes, and citizen and council priorities; they are balanced to forecasted available resources-the funding targets. Budget recommendations are reviewed to ensure that preliminary project, operating base budgets, and supplemental decision packages are congruent with city needs and council priorities while not exceeding forecasted resources/targets.

The Five-year Financial Plan is reviewed annually and adjustments incorporated as necessary. The first year is adopted and the second year tentatively approved. An abbreviated review is made in the following year, with only required exceptions being added/changed to the approved plan prior to formal adoption.

Regular monitoring of expenditures, economic climate, and revenue forecasts alerts management to any potential financial plan problems and provides data for making adjustments. All exceptions

to the strategic plan as represented during public meetings with citizens and council during the fiscal year must include a fiscal note explaining the impact upon the budget and balanced financial plan and identifying resources recommended to maintain a fiscal balance-use of contingency, program trade-off, etc.

Communicating the Financial Plan

If a budget decision is not linked to achieving City Critical Objectives, is poorly justified, or does not answer fundamental questions from a citizen's perspective, then communicating the budget plan to the customer has failed. Scottsdale makes every effort to ensure that the strategic budget process is deliberative, integrated, rooted in community-based planning, and fiscally prudent. The following illustrate Scottsdale's communication action elements.

- All budget decisions are required to be submitted, reviewed, and presented in the form of a formal council action used in regular, public council meetings.
- The draft budget document is prepared for council, public, and press review and contains objectives, performance measures, decision highlights, and all relevant financial information.
- A review which includes key trend indicators, budget decision highlights, integrated goals, and performance measures for each program area is presented to council over many days and is also broadcast over the city's public access TV channel on repeated occasions. Staff is required to participate in a rehearsal beforehand in order to critique their presentation and enhance their ability to communicate the plans effectively.
- The Citizen Budget Committee reviews the draft budget and presents its findings to council at a regularly scheduled public meeting. The committee evaluates the strategic budget process, offers an opinion on the adequacy of the financial plan to meet stated goals/objectives, and provides other feedback representative of the citizens.
- A newspaper supplement is prepared after the initial budget plan has been reviewed; this highlights budget program changes, city financial condition, and impact on citizens.

The supplement is widely distributed via the local newspaper and is available at all citizen service centers.

- Three public hearing are held to solicit questions and comments regarding the budget.
- The final budget document, prepared after final budget adoption, incorporates all changes made during the adoption process. It also includes results and outcomes from the prior year/plan.
- Budget comments also are solicited via the city Internet Website, and the entire final budget document can be viewed there.

Measuring Results and Outcomes

Following implementation of the budget plan, the final strategic budgeting action element is to measure the results and outcomes. Measuring results and outcomes is a perpetual management process, which validates the success or failure of the strategic plan. It completes the strategic budget cycle and allows management an opportunity to demonstrate success in achieving goals and objectives and identify goals that are not being achieved.

Scottsdale's biennial budget includes goals and performance measurements. Monthly departmental reporting of progress and accountability to budget must be justified and prognosis reported regarding impact upon year-end status. Performance measurement is expected on an ongoing basis, and program benchmarking is encouraged. Time savings achieved by the biennial budget process have allowed city staff an opportunity to improve upon program performance measures and to conduct comparative analysis studies (benchmarking).

Staff took advantage of the timesavings from the biennial budgeting process during the "off" budget year and conducted two studies to help measure costs of services and the costs of development. The results of these performance studies provided intelligence for benchmarking efforts and costing data for planning future service fees, rates, and development fee changes. The cost-of-development study also produced a long-range financial planning model that is now used for analyzing alternative development scenarios and determining the capital infrastructure requirements

and operational costs associated with each scenario.

Strategic Budgeting Outcomes

To measure results and gauge the success of Scottsdale's strategic budget process, all departments and the council were surveyed to determine if the goals they had set out to achieve had been accomplished. Departments were asked to estimate the time and effort for a one-year budget versus the two-year process and to provide examples of feedback regarding the pros and cons of the process. The results of the survey indicated that the transition to multiyear budgeting and a strategic budgeting process resulted in better interdepartmental cooperation, decentralizing budget decision making, outcome-focused decisions, and broader stakeholder participation. It enabled program and service outcomes to be more consistent with City Critical Objectives; helped achieve a balanced budget and expenditure flexibility; saved the city more than 14,000 staff hours (70 percent reduction) or the equivalent of several full-time positions -approximately \$440,000 during the second year of the Biennial Budget or the "off year": and freed staff time for pursuing improved planning, analysis, and new initiatives.

Comments from city council the citizen budget committee were consistent with staff feedback. Since the strategic budget process was implemented, Scottsdale's citizen survey has shown an overall rating of city services as very good or good more than 95 percent. This level of citizen satisfaction is a good indicator of effective listening to the customers, planning, and performance. The team has used this post-Implementation feedback to identify the strengths and the weaknesses of the strategic budgeting process and continues to improve upon the program's success.

¹ See *Distinguished Budget Presentation Awards Program*, by the Government Finance Officers Association (GFOA).

² See *A Framework For Improved State and Local Government Budgeting and Recommended Budget Practices*, 1997 by the National Advisory Council on State and Local Budgeting (NACSLB).

³ This analysis is recommended and described in the ICMA publication *Evaluating Local Government Financial Condition*, 1980

⁴ See *New Strategies for Planning, Management and Finance*, 1989, International City/County Management Association (ICMA).

⁵ See *GFOA Budget Awards Program: Illustration and Examples*, and *The Best of Governmental Budgeting, A guide to Preparing Budget Documents*, 1994, GFOA.

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